

CITY OF WHITEWOOD
WHITEWOOD, SOUTH DAKOTA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

CITY OF WHITEWOOD

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Whitewood
Whitewood, South Dakota

We have audited the accompanying financial statements of governmental activities, the business-type activities, and each major fund of the **CITY OF WHITEWOOD** (the City), Lawrence County, South Dakota, as of and for the years ended December 31, 2008 and 2007, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City as of December 31, 2008 and 2007, and the respective changes in financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 15, and the required supplementary budgetary information on pages 54 through 62, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations, and is not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP
Certified Public Accountants

December 7, 2009

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2008 AND 2007

This section of the City of Whitewood (the City) annual financial report presents our discussion and analysis of the City's financial performance during the years ended December 31, 2008 and 2007. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The City's net assets from governmental and business-type activities increased by \$644,071 and \$139,871, respectively, for the years ended December 31, 2008 and 2007. This increase was primarily due to an increase in grant revenue in 2008 and to an overall increase in sales tax and proprietary fund revenues in 2007.

During the year ended December 31, 2008, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs was \$95,216, before transfers, more than the \$644,331 of governmental program expenditures. During the year ended December 31, 2007, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs was \$87,687, before transfers, more than the \$668,191 of governmental program expenditures.

The City's proprietary funds revenue exceeded expenses by \$537,961 after transfers for the years ended December 31, 2008. The increase in 2008 was due primarily to the grant revenue received for the water project. The increase in 2007 was due primarily to an increase in the revenue generated from charges for goods or services.

For the years ended December 31, 2008 and 2007, the general fund reported an increase in net assets of \$69,086 and \$91,805, respectively, primarily due to an increase in net income from liquor operating agreements in 2008 and an increase in sales tax revenue in 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The governmental funds statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending.

Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has two proprietary funds – the Water Fund and Sewer Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008 AND 2007

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

CITY OF WHITEWOOD

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General Fund	Library Fund	Additional Sales Tax Fund	Economic Development Fund	Debt Service Fund	Tax Increment District #1 - Debt Service Fund	Total Governmental Funds
Assets							
101 Cash (Note 2)	\$ 397,600	\$ 32,781	\$ 51,195	\$ 139,812	\$ 66,490	\$ -	\$ 687,878
107 Restricted Investments (Note 2)	14,718	-	-	-	-	-	14,718
108 Property Taxes Receivable	4,570	-	-	-	-	-	4,570
110 Sales Taxes Receivable	14,057	-	-	-	-	-	14,057
115 Accounts Receivable	29,180	-	464	-	-	3,392	33,036
121 Special Assessments Receivable	-	-	-	-	64,440	-	64,440
128 Notes Receivable (Note 4)	-	-	-	32,240	-	-	32,240
128 Loan Receivable - West River Foundation	-	-	-	40,000	-	-	40,000
154 Deposit (Note 11)	12,250	-	-	-	-	-	12,250
Total Assets	\$ 472,375	\$ 32,781	\$ 51,659	\$ 212,052	\$ 130,930	\$ 3,392	\$ 903,189
Liabilities and Fund Balances							
Liabilities							
202 Accounts Payable	\$ 11,520	\$ 180	\$ -	\$ -	\$ -	\$ -	\$ 11,700
216 Accrued Wages Payable	16,439	2,289	-	-	-	-	18,728
220 Customer Deposits	2,700	-	-	-	-	-	2,700
224 Deferred Revenue (Note 3)	4,570	-	-	-	64,440	-	69,010
Total Liabilities	35,229	2,469	-	-	64,440	-	102,138
Fund Balances							
261 Reserved Fund Balances							
261.04 Reserved for Debt Service	14,718	-	-	-	-	3,392	18,110
261.16 Reserved for Notes Receivable	-	-	-	32,240	-	-	32,240
261.16 Reserved for Loan Receivable - West River Foundation	-	-	-	40,000	-	-	40,000
261.16 Reserved for Deposit - SDPAA	12,250	-	-	-	-	-	12,250
262 Unreserved Fund Balances							
262.03 Designated - Capital Outlay	-	20,000	-	-	-	-	20,000
262.09 Undesignated	410,178	10,312	51,659	139,812	66,490	-	678,451
Total Fund Balances	437,146	30,312	51,659	212,052	66,490	3,392	801,051
Total Liabilities and Fund Balances	\$ 472,375	\$ 32,781	\$ 51,659	\$ 212,052	\$ 130,930	\$ 3,392	\$ 903,189

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2008 AND 2007

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets -- the difference between the City's assets and liabilities -- are one way to measure the City's financial health or position.

Increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the City you need to consider additional nonfinancial factors, such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in two categories:

Governmental Activities -- This category includes most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.

Business-Type Activities -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's water and sewer systems are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds -- not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

State law requires some of the funds. The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

Governmental Funds -- Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the end of the year that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

Proprietary Funds -- Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The City's proprietary funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) **DECEMBER 31, 2008 AND 2007**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's combined net assets increased by 19 percent between 2007 and 2008 – increasing by \$644,071. The City's combined net assets increased by 4 percent between 2006 and 2007 – increasing by \$139,871.

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The difference between the City's assets and liabilities is its net assets.

Table A-1

Statement of Net Assets						
	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Current & Other Assets	\$ 833,598	\$ 903,189	\$ 445,024	\$ 605,029	\$1,278,622	\$ 1,508,218
Capital Assets	1,023,417	983,245	2,979,691	3,372,499	4,003,108	4,355,744
Total Assets	\$1,857,015	\$ 1,886,434	\$3,424,715	\$ 3,977,528	\$5,281,730	\$ 5,863,962
Long-Term Debt	\$ 624,503	\$ 534,811	\$1,097,956	\$ 1,073,320	\$1,722,459	\$ 1,608,131
Other Liabilities	20,127	33,128	146,239	185,727	166,366	218,855
Total Liabilities	\$ 644,630	\$ 567,939	\$1,244,195	\$ 1,259,047	\$1,888,825	\$ 1,826,986
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	\$ 405,985	\$ 451,710	\$1,884,425	\$ 2,300,379	\$2,290,410	\$ 2,752,089
Restricted	105,334	96,850	4,956	46,581	110,290	143,431
Unrestricted	701,066	769,935	291,139	371,521	992,205	1,141,456
Total Net Assets	\$1,212,385	\$ 1,318,495	\$2,180,520	\$ 2,718,481	\$3,392,905	\$ 4,036,976
Beginning Net Assets	\$1,107,005	\$ 1,212,385	\$2,146,029	\$ 2,180,520	\$3,253,034	\$ 3,392,905
Change in Net Assets	105,380	106,110	34,491	537,961	139,871	644,071
Percentage of Change						
Net Assets	9.52%	8.75%	1.61%	24.67%	4.30%	18.98%

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008 AND 2007

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Net Assets (Continued)

Table A-2

Statement of Net Assets						
	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Current & Other Assets	\$ 725,481	\$ 833,598	\$ 591,506	\$ 445,024	\$1,316,987	\$ 1,278,622
Capital Assets	1,047,234	1,023,417	1,801,925	2,979,691	2,849,159	4,003,108
Total Assets	\$1,772,715	\$ 1,857,015	\$2,393,431	\$ 3,424,715	\$4,166,146	\$ 5,281,730
Long-Term Debt	\$ 428,683	\$ 624,503	\$ 222,081	\$ 1,097,956	\$ 650,764	\$ 1,722,459
Other Liabilities	11,277	20,127	25,321	146,239	36,598	166,366
Total Liabilities	\$ 439,960	\$ 644,630	\$ 247,402	\$ 1,244,195	\$ 687,362	\$ 1,888,825
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	\$ 623,304	\$ 405,985	\$1,581,646	\$ 1,884,425	\$2,204,950	\$ 2,290,410
Restricted	93,433	105,334	4,956	4,956	98,389	110,290
Unrestricted	616,018	701,066	559,427	291,139	1,175,445	992,205
Total Net Assets	\$1,332,755	\$ 1,212,385	\$2,146,029	\$ 2,180,520	\$3,478,784	\$ 3,392,905
Beginning Net Assets	\$1,015,329	\$ 1,107,005	\$1,935,363	\$ 2,146,029	\$2,950,692	\$ 3,253,034
Change in Net Assets	317,426	105,380	210,666	34,491	528,092	139,871
Percentage of Change						
Net Assets	31.26%	9.52%	10.89%	1.61%	17.90%	4.30%

Changes in Net Assets

The City's revenues (excluding transfers and gain on capital assets) totaled \$1,655,695 and \$1,111,506, respectively, for the years ended December 31, 2008 and 2007. (See Figures A-2 and A-4). The total cost of all programs and services increased also for the years ended December 31, 2008 and 2007. The City's expenses cover a range of services, with over 40 percent related to public works, public safety, and general government. (See Figures A-3 and A-5)

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008 AND 2007

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

Figure A-2: 2008 Revenues

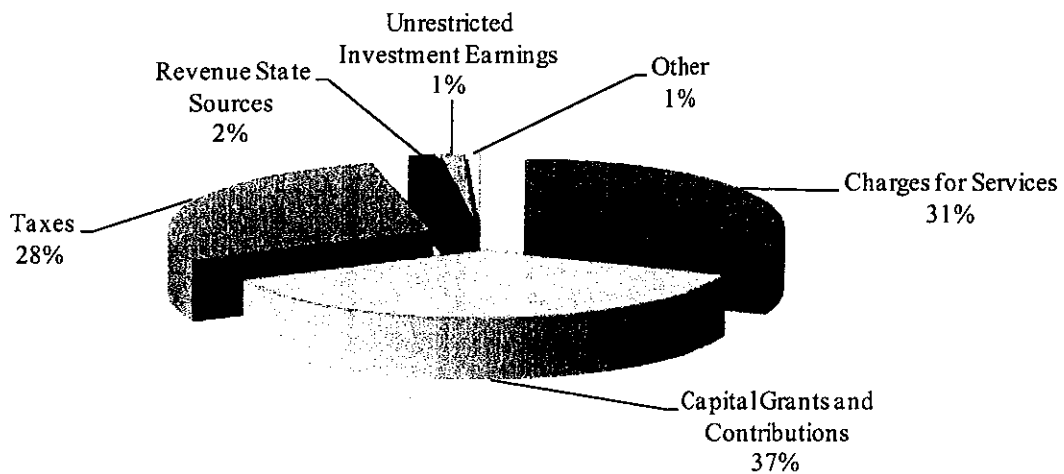
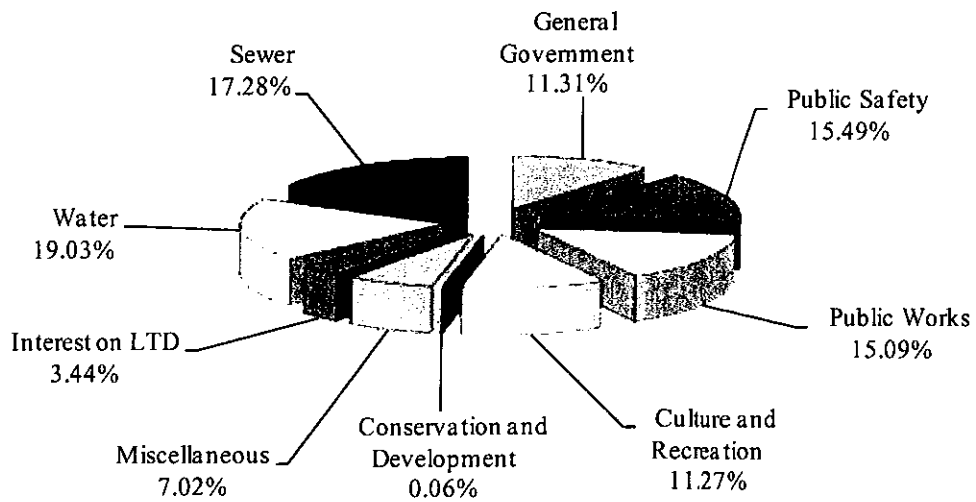


Figure A-3: 2008 Expenditures



CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008 AND 2007

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

Figure A-4: 2007 Revenues

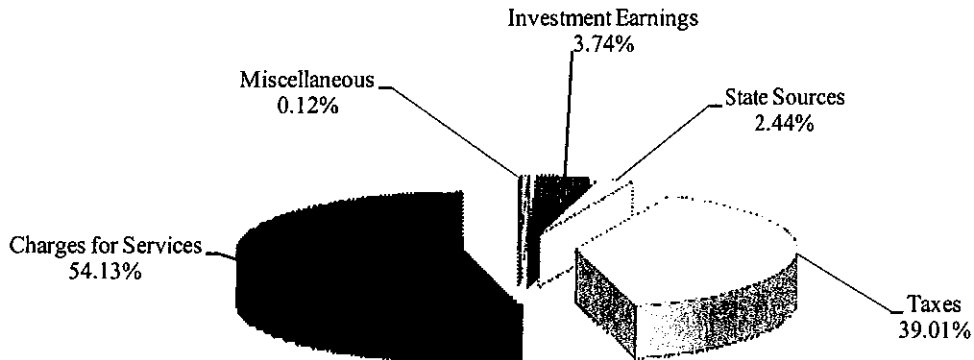
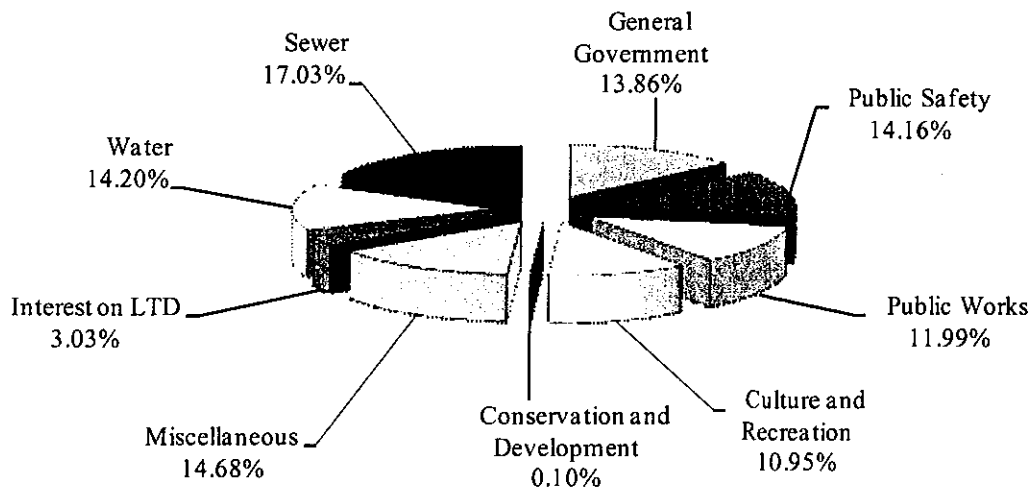


Figure A-5: 2007 Expenditures



CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008 AND 2007

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Change in Net Assets (Continued)

Table A-3

	Total Governmental Activities		Total Business-type Activities		Grand Total	
	2007	2008	2007	2008	2007	2008
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 266,952	\$ 172,686	\$ 334,696	\$ 341,229	\$ 601,648	\$ 513,915
Operating Grants and Contributions	-	-	-	-	-	-
Capital Grants and Contributions	6,159	43,247	-	566,326	6,159	609,573
<i>General Revenues</i>						
Taxes	433,632	469,289	-	-	433,632	469,289
Revenue State Sources	27,157	27,034	-	-	27,157	27,034
Unrestricted Investment Earnings	20,691	15,217	20,932	8,593	41,623	23,810
Gain on Sale	200	-	-	-	200	-
Other	1,087	12,074	-	-	1,087	12,074
Total Revenues	755,878	739,547	355,628	916,148	1,111,506	1,655,695
Expenses						
General Government	134,634	114,455	-	-	134,634	114,455
Public Safety	137,572	156,712	-	-	137,572	156,712
Public Works	116,452	152,675	-	-	116,452	152,675
Culture and Recreation	106,389	114,044	-	-	106,389	114,044
Conservation and Development	1,009	586	-	-	1,009	586
Interest on Long-Term Debt	29,484	34,843	-	-	29,484	34,843
Miscellaneous	142,651	71,016	-	-	142,651	71,016
Water Services	-	-	137,927	192,518	137,927	192,518
Sewer Services	-	-	165,517	174,775	165,517	174,775
Total Expenses	668,191	644,331	303,444	367,293	971,635	1,011,624
Excess Revenues						
Before Transfers	87,687	95,216	52,184	548,855	139,871	644,071
Transfers	17,693	10,894	(17,693)	(10,894)	-	-
Increase in Net Assets	\$ 105,380	\$ 106,110	\$ 34,491	\$ 537,961	\$ 139,871	\$ 644,071
Ending Net Assets	\$ 1,212,385	\$ 1,318,495	\$ 2,180,520	\$ 2,718,481	\$ 3,392,905	\$ 4,036,976

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008 AND 2007

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Change in Net Assets (Concluded)

Table A-4

	Total Governmental Activities		Total Business-Type Activities		Grand Total	
	2006	2007	2006	2007	2006	2007
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 115,899	\$ 266,952	\$ 314,987	\$ 334,696	\$ 430,886	\$ 601,648
Operating Grants and Contributions	-	-	-	-	-	-
Capital Grants and Contributions	224,050	6,159	155,867	-	379,917	6,159
<i>General Revenues</i>						
Taxes	366,861	433,632	-	-	366,861	433,632
Revenue State Sources	19,235	27,157	-	-	19,235	27,157
Unrestricted Investment Earnings	23,859	20,691	17,693	20,932	41,552	41,623
Gain on Sale	24	200	-	-	24	200
Other	2,640	1,087	-	-	2,640	1,087
Total Revenues	752,568	755,878	488,547	355,628	1,241,115	1,111,506
Expenses						
General Government	89,511	134,634	-	-	89,511	134,634
Public Safety	121,915	137,572	-	-	121,915	137,572
Public Works	97,468	116,452	-	-	97,468	116,452
Culture and Recreation	59,118	106,389	-	-	59,118	106,389
Conservation and Development	11,522	1,009	-	-	11,522	1,009
Interest on Long-Term Debt	20,555	29,484	-	-	20,555	29,484
Miscellaneous	43,854	142,651	-	-	43,854	142,651
Water Services	-	-	112,861	137,927	112,861	137,927
Sewer Services	-	-	156,219	165,517	156,219	165,517
Total Expenses	443,943	668,191	269,080	303,444	713,023	971,635
Excess Revenues						
Before Transfers	308,625	87,687	219,467	52,184	528,092	139,871
Transfers	8,801	17,693	(8,801)	(17,693)	-	-
Change in Net Assets	\$ 317,426	\$ 105,380	\$ 210,666	\$ 34,491	\$ 528,092	\$ 139,871
Ending Net Assets	\$ 1,107,005	\$ 1,212,385	\$ 2,146,029	\$ 2,180,520	\$ 3,253,034	\$ 3,392,905

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2008 AND 2007

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

During 2008, revenues of the City's governmental activities exceeded expenses by \$106,110. The increase was due primarily to the increase in the net income generated from the liquor operating agreements.

During 2007, revenues of the City's governmental activities exceeded expenses by \$105,380. Factors contributing to these results included:

- \$47,584 increase in sales tax revenue
- \$53,825 net income from liquor operating agreements

Business-type Activities

During 2008, revenues of the City's business-type activities exceeded expenses by \$537,961. This increase was due primarily to \$566,326 of capital grants received during 2008.

During 2007, revenues of the City's business-type activities exceeded expenses by \$34,491. This increase was due primarily to an increase in charges for goods and services.

During the years ended December 31, 2008 and 2007, the business-type - enterprise funds transferred \$10,894 and \$17,693, respectively, to the governmental activities - general fund to subsidize operations.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains several governmental funds and two business-type funds. Most of the City's funds had some gain during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget several times. These amendments fall into two categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.
- Increases in appropriations, primarily by contingency transfer, to prevent budget overruns.

A supplemental appropriation was made for the year ending December 31, 2008 for unforeseen expenses in the General Fund as a result of flooding repairs and clean up.

A supplemental appropriation was made for the year ending December 31, 2007 for unforeseen expenses in the General Government, Public Safety, Public Works, Culture and Recreation Departments in the General Fund, and in the Debt Service Fund and Liquor Fund.

The general fund budget for 2008 was \$585,620 and the actual amount spent was \$540,973 which resulted in a difference of \$44,647, this additional savings is the elected officials and the departments being fiscally responsible for the budget line items.

The general fund budget for 2007 was \$39,415 over budget due in large part to repairs to Governmental Buildings from storm damage and other higher than expected expenses.

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008 AND 2007

CAPITAL ASSET ADMINISTRATION

The City had invested \$4,355,744 and \$4,003,108 in a broad range of capital assets at December 31, 2008 and 2007, respectively, including land, buildings, various machinery and equipment. (See Tables A-5 and A-6.) This amount represents a net increase (including additions and deductions) of \$352,636 and of \$1,153,949 at December 31, 2008 and 2007, respectively.

Table A-5

Capital Assets (Net of Depreciation)				
	Governmental Activities		Business-type Activities	
	2007	2008	2007	2008
Land	\$ 20,200	\$ 20,200	\$ 23,253	\$ 23,253
Buildings	155,680	151,500	314,745	820,304
Improvements	738,538	721,563	1,293,053	2,495,937
Machinery and Equipment	108,999	89,982	42,231	33,005
Construction Work in Progress	-	-	1,306,409	-
Totals	\$ 1,023,417	\$ 983,245	\$ 2,979,691	\$ 3,372,499

Table A-6

Capital Assets (Net of Depreciation)				
	Governmental Activities		Business-type Activities	
	2006	2007	2006	2007
Land	\$ 20,200	\$ 20,200	\$ 23,253	\$ 23,253
Buildings	159,860	155,680	359,165	314,745
Improvements	755,513	738,538	1,333,153	1,293,053
Machinery and Equipment	111,661	108,999	42,111	42,231
Construction Work in Progress	-	-	44,243	1,306,409
Totals	\$ 1,047,234	\$ 1,023,417	\$ 1,801,925	\$ 2,979,691

The 2008 major governmental capital asset additions included \$13,347 of library books.

Business-type major additions in 2008 included water lines for \$911,726, a new well for \$355,967, new water tower at Oak Park for \$421,202, and a new well house for \$140,000.

The 2007 major governmental capital asset additions included \$9,213 of library books.

Business-type major additions in 2007 included a water tank at Oak Park for \$355,000, an excavator for \$6,325 and a roller for \$4,750

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008 AND 2007

LONG-TERM DEBT

At the December 31, 2008, and 2007, the City had \$1,608,131 and \$1,722,459, respectively, in Compensated Absences, Sales Tax Revenue Bonds, Special Assessment Debt, Tax Incremental District #1 debt, State Revolving Loans, Rural Development Loan, and Bond Anticipation Note.

Table A-7

Outstanding Debt and Obligations				
	Governmental Activities		Business-type Activities	
	2007	2008	2007	2008
Sales Tax Revenue Bonds	\$ 224,556	\$ 202,651	\$ -	\$ -
Tax Incremental District #1	233,433	189,282	-	-
Special Assessment Bonds	159,443	139,602	-	-
Compensated Absences	7,071	3,276	2,690	1,200
Water Revenue Bonds			-	903,000
Bond Anticipation Note	-	-	903,000	-
State Revolving Fund Loans	-	-	158,001	138,382
Rural Development Loan	-	-	34,265	30,738
Total	\$ 624,503	\$ 534,811	\$ 1,097,956	\$ 1,073,320

Table A-8

Outstanding Debt and Obligations				
	Governmental Activities		Business-type Activities	
	2006	2007	2006	2007
Tax Incremental District #1	\$ 238,000	\$ 233,433	\$ -	\$ -
Sales Tax Revenue Bonds	245,513	224,556	-	-
Special Assessment Bonds	178,417	159,443	-	-
Compensated Absences	4,753	7,071	1,802	2,690
Bond Anticipation Note	-	-	-	903,000
State Revolving Fund Loans	-	-	182,443	158,001
Rural Development Loan	-	-	37,836	34,265
Total	\$ 666,683	\$ 624,503	\$ 222,081	\$ 1,097,956

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) DECEMBER 31, 2008 AND 2007

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's current economic position has shown continued improvement. For the years ended December 31, 2008, and 2007, the City did experience an increase in total property valuation of \$3,738,513 and \$3,534,972, respectively, or 1.7 and 9.3 percent increases from the prior years. The increase in property valuation allows the City the ability to increase the amount of revenue generated from property taxes by approximately \$17,236 and \$7,339 for the years ended December 31, 2008 and 2007, respectively. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3 percent or an amount based on the Consumer Price Index (CPI), whichever is lower.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The city experienced a decrease in taxable sales of 10 percent during 2008 and an increase of 27 percent during 2007 over the previous year and has budgeted for an increase in sales tax revenue for 2009.

The City's adopted General Fund budget for the next fiscal year will be \$522,805. The largest portion of this increase is due to increased debt service and to wage increases.

The City's business-type activities (water and sewer operations) expect that the results for 2009 will continue to improve based on a recent rate increase implemented to cover the increasing cost of wages, benefits and cost of operations.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Whitewood Finance Office, 625 Fifth Street, Whitewood, SD 57783.

CITY OF WHITEWOOD

**STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets:			
Cash	\$ 687,878	\$ 403,554	\$ 1,091,432
Accounts Receivable	188,343	145,864	334,207
Restricted Investments	14,718	46,581	61,299
Deferred Charges	-	9,030	9,030
Deposit	12,250	-	12,250
Capital Assets (Note 6):			
Land, Improvements and Construction in Progress	20,200	23,253	43,453
Other Capital Assets, Net of Depreciation	963,045	3,349,246	4,312,291
TOTAL ASSETS	\$ 1,886,434	\$ 3,977,528	\$ 5,863,962
Liabilities:			
Accounts Payable	\$ 11,700	\$ 115,174	\$ 126,874
Other Current Liabilities	21,428	70,553	91,981
Noncurrent Liabilities (Note 7):			
Due Within One Year	80,219	21,306	101,525
Due in More Than One Year	454,592	1,052,014	1,506,606
TOTAL LIABILITIES	567,939	1,259,047	1,826,986
Net Assets:			
Invested in Capital Assets, Net of Related Debt	451,710	2,300,379	2,752,089
Restricted for:			
Debt Service	84,600	46,581	131,181
Deposit - SDPAA	12,250	-	12,250
Unrestricted	769,935	371,521	1,141,456
TOTAL NET ASSETS	1,318,495	2,718,481	4,036,976
TOTAL LIABILITIES AND NET ASSETS	\$ 1,886,434	\$ 3,977,528	\$ 5,863,962

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

		Net (Expense) Revenue and			
		----- Changes in Net Assets -----			
		Capital			
		Grants and			
		Contributions			
		Governmental			
		Business-Type			
Functions/Programs	Expenses	Charges for Services	Activities	Activities	Total
Primary Government					
Governmental Activities:					
General Government	\$ 114,455	\$ 5,109	\$ -	\$ (109,346)	\$ (109,346)
Public Safety	156,712	777	-	(155,935)	(155,935)
Public Works	152,675	50,773	43,247	(58,655)	(58,655)
Culture and Recreation	114,044	6,700	-	(107,344)	(107,344)
Conservation and Development	586	-	-	(586)	(586)
Miscellaneous	71,016	109,327	-	38,311	38,311
Interest on Long Term Debt	34,843	-	-	(34,843)	(34,843)
Total Governmental Activities	644,331	172,686	43,247	(428,398)	(428,398)
Business-Type Activities:					
Water	192,518	203,249	566,326	-	577,057
Sewer	174,775	137,980	-	-	(36,795)
Total Business-Type Activities	367,293	341,229	566,326	-	540,262
Total Primary Government	\$ 1,011,624	\$ 513,915	\$ 609,573	(428,398)	540,262
General Revenues:					
Taxes:					
Property Taxes				266,863	-
Sales Taxes				202,426	-
State Shared Revenue				27,034	-
Grants and Contributions Not Restricted				11,477	-
Unrestricted Investment Earnings				15,217	8,593
Miscellaneous Revenue				597	-
Transfers				10,894	(10,894)
Total General Revenue and Transfers				534,508	(2,301)
Change in Net Assets				106,110	537,961
Net Assets, Beginning				1,212,385	2,180,520
Net Assets, Ending				\$ 1,318,495	\$ 2,718,481
					\$ 4,036,976

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	<u>General Fund</u>	<u>Library Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Economic Development Fund</u>	<u>Debt Service Fund</u>	<u>Tax Increment District #1 - Debt Service Fund</u>	<u>Total Governmental Funds</u>
Assets							
101 Cash (Note 2)	\$ 397,600	\$ 32,781	\$ 51,195	\$ 139,812	\$ 66,490	\$ -	\$ 687,878
107 Restricted Investments (Note 2)	14,718	-	-	-	-	-	14,718
108 Property Taxes Receivable	4,570	-	-	-	-	-	4,570
110 Sales Taxes Receivable	14,057	-	-	-	-	-	14,057
115 Accounts Receivable	29,180	-	464	-	-	3,392	33,036
121 Special Assessments Receivable	-	-	-	-	64,440	-	64,440
128 Notes Receivable (Note 4)	-	-	-	32,240	-	-	32,240
128 Loan Receivable - West River Foundation	-	-	-	40,000	-	-	40,000
154 Deposit (Note 11)	12,250	-	-	-	-	-	12,250
Total Assets	\$ 472,375	\$ 32,781	\$ 51,659	\$ 212,052	\$ 130,930	\$ 3,392	\$ 903,189
Liabilities and Fund Balances							
<i>Liabilities</i>							
202 Accounts Payable	\$ 11,520	\$ 180	\$ -	\$ -	\$ -	\$ -	\$ 11,700
216 Accrued Wages Payable	16,439	2,289	-	-	-	-	18,728
220 Customer Deposits	2,700	-	-	-	-	-	2,700
224 Deferred Revenue (Note 3)	4,570	-	-	-	64,440	-	69,010
Total Liabilities	35,229	2,469	-	-	64,440	-	102,138
<i>Fund Balances</i>							
<i>261 Reserved Fund Balances</i>							
261.04 Reserved for Debt Service	14,718	-	-	-	-	3,392	18,110
261.16 Reserved for Notes Receivable	-	-	-	32,240	-	-	32,240
261.16 Reserved for Loan Receivable - West River Foundation	-	-	-	40,000	-	-	40,000
261.16 Reserved for Deposit - SDPAA	12,250	-	-	-	-	-	12,250
<i>262 Unreserved Fund Balances</i>							
262.03 Designated - Capital Outlay	-	20,000	-	-	-	-	20,000
262.09 Undesignated	410,178	10,312	51,659	139,812	66,490	-	678,451
Total Fund Balances	437,146	30,312	51,659	212,052	66,490	3,392	801,051
Total Liabilities and Fund Balances	\$ 472,375	\$ 32,781	\$ 51,659	\$ 212,052	\$ 130,930	\$ 3,392	\$ 903,189

CITY OF WHITEWOOD

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

Total Fund Balances - Governmental Funds	\$	801,051
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Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	983,245
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Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(534,811)
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Assets, such as delinquent taxes receivable and special assessments receivable, are not available to pay for current period expenditures and therefore are deferred in the funds.	69,010
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Total Net Assets - Governmental Funds	\$	1,318,495
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The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General	Library	Additional	Economic	Debt	Tax Increment	Total
	Fund	Fund	Sales Tax	Development	Service	District #1 -	Governmental
Revenue			Fund	Fund	Fund	Debt Service	Funds
<i>Taxes:</i>							
311 General Property Taxes	\$142,554	\$ 58,400	\$ -	\$ -	\$ -	\$ 65,487	\$ 266,441
313 General Sales and Use Taxes	192,601	-	9,825	-	-	-	202,426
315 Amusement Taxes	168	-	-	-	-	-	168
319 Penalties and Interest on Delinquent Taxes	748	-	-	-	-	-	748
320 Licenses and Permits	5,109	-	-	-	-	-	5,109
<i>Intergovernmental Revenue:</i>							
Federal Grants:							
331 FEMA	38,736	-	-	-	-	-	38,736
State Shared Revenue:							
335.01 Bank Franchise Tax	552	-	-	-	-	-	552
335.03 Liquor Tax Reversion	5,136	-	-	-	-	-	5,136
335.04 Motor Vehicle Licenses (5%)	5,038	-	-	-	-	-	5,038
335.08 Local Government Highway and Bridge Fund	8,467	-	-	-	-	-	8,467
335.20 Other	21,346	-	-	-	-	-	21,346
County Shared Revenue:							
338.02 County HBR Tax	872	-	-	-	-	-	872
<i>Charges for Goods and Services:</i>							
344 Sanitation	35,412	-	-	-	-	-	35,412
345 Health	267	-	-	-	-	-	267
346 Culture and Recreation	6,700	-	-	-	-	-	6,700
349 Other	984	-	-	-	-	-	984
<i>Fines and Forfeits:</i>							
351 Court Fines and Costs	300	-	-	-	-	-	300
359 Other	210	-	-	-	-	-	210
<i>Miscellaneous Revenue:</i>							
361 Earnings on Deposits and Investments	7,649	847	977	4,475	1,269	-	15,217
363 Special Assessments	-	-	-	-	15,251	-	15,251
367 Contributions and Donations	11,477	-	-	-	-	-	11,477
368 Liquor Operating Agreement Income	109,327	-	-	-	-	-	109,327
369 Miscellaneous Revenue	597	-	-	-	-	-	597
Total Revenue	594,250	59,247	10,802	4,475	16,520	65,487	750,781

CITY OF WHITEWOOD

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>General Fund</u>	<u>Library Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Economic Development Fund</u>	<u>Debt Service Fund</u>
Expenditures					
<i>General Government:</i>					
411 Legislative	24,425	-	-	-	-
412 Executive	3,965	-	-	-	-
413 Elections	374	-	-	-	-
414 Financial Administration	62,493	-	-	-	-
419 Other	23,198	-	-	-	-
<i>Public Safety:</i>					
421 Police	144,498	-	-	-	-
422 Fire	2,023	-	-	-	-
423 Protective Inspection	5,628	-	-	-	-
<i>Public Works:</i>					
431 Highway and Streets	98,758	-	-	-	-
432 Sanitation	35,971	-	-	-	-
<i>Culture and Recreation:</i>					
452 Parks	36,806	-	-	-	-
455 Library	-	63,370	-	-	-
<i>Conservation and Development:</i>					
465 Economic Development	300	-	286	-	-
470 Debt Service	31,518	-	-	-	27,127
<i>Miscellaneous:</i>					
499 Liquor Operating Agreements	71,016	-	-	-	-
Total Expenditures	540,973	63,370	286	-	27,127
Other Financing Sources (Uses)					
391.1 Transfers In (Note 8)	15,809	-	-	-	-
511 Transfers Out (Note 8)	-	-	(977)	(2,669)	(1,269)
Total Other Financing Sources (Uses)	15,809	-	(977)	(2,669)	(1,269)
Net Change in Fund Balances	69,086	(4,123)	9,539	1,806	(11,876)
Fund Balances - December 31, 2007	368,060	34,435	42,120	210,246	78,366
Fund Balances - December 31, 2008	\$ 437,146	\$ 30,312	\$ 51,659	\$ 212,052	\$ 66,490

The accompanying notes are an integral part of the financial statements.

Tax Increment

District #1 -	Total
Debt Service	Governmental
<u>Fund</u>	<u>Funds</u>

-	24,425
-	3,965
-	374
-	62,493
-	23,198

-	144,498
-	2,023
-	5,628

-	98,758
-	35,971

-	36,806
-	63,370

-	586
62,095	120,740

-	71,016
62,095	693,851

-	15,809
-	(4,915)
-	10,894

3,392	67,824
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-	733,227
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\$ 3,392	\$ 801,051
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CITY OF WHITEWOOD

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURE:
AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

Net change in fund balances - total government funds	\$ 67,824
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Amounts reported for governmental activities in the Statement of Activities
are different because:

This amount represents the current year depreciation expense reported in the statement of activities, which is not reported on the fund financial statements because it does not require the use of current financial resources.	(40,172)
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The fund financial statement governmental fund property tax accruals differ from the government wide statement property tax accruals in that the fund financial statements require the amounts to be "available."	(494)
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Governmental funds report special assessments as revenue when available, but the statement of activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises.	(10,740)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	85,897
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Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures.	3,795
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Change in Net Assets of Governmental Activities	\$ 106,110
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The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**BALANCE SHEET
PROPRIETARY FUNDS
DECEMBER 31, 2008**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Assets			
Current Assets			
101 Cash (Note 2)	\$ 337,490	\$ 66,064	\$ 403,554
107 Restricted Cash (Note 2)	41,625	4,956	46,581
115 Accounts Receivable	15,522	10,729	26,251
117 Unbilled Accounts Receivable	5,121	3,541	8,662
132 Due from Other Government - Grant	110,951	-	110,951
159 Deferred Charges	9,030	-	9,030
Total Current Assets	519,739	85,290	605,029
Capital Assets (Note 6)			
160 Land	-	23,253	23,253
162 Buildings	664,728	845,641	1,510,369
163 Accumulated Depreciation - Buildings	(75,143)	(614,922)	(690,065)
164 Improvements Other Than Buildings	2,299,908	867,114	3,167,022
165 Accumulated Depreciation - Improvements Other than Buildings	(386,841)	(284,244)	(671,085)
166 Machinery and Equipment	74,105	38,893	112,998
167 Accumulated Depreciation - Machinery and Equipment	(54,368)	(25,625)	(79,993)
Total Capital Assets, Net	2,522,389	850,110	3,372,499
Total Assets	\$ 3,042,128	\$ 935,400	\$ 3,977,528
Liabilities and Net Assets			
Current Liabilities			
202 Accounts Payable	\$ 113,490	\$ 1,684	\$ 115,174
205 Current Portion of Long-Term Debt (Note 7)	8,243	11,863	20,106
215 Accrued Interest Payable	37,774	-	37,774
216 Accrued Wages Payable	3,396	3,211	6,607
220 Customer Deposits	16,316	9,856	26,172
233 Accrued Leave Payable (Note 7)	604	596	1,200
Total Current Liabilities	179,823	27,210	207,033
Long-Term Liabilities			
237 Long-Term Debt, Net of Current Portion (Note 7)	894,757	157,257	1,052,014
Total Liabilities	1,074,580	184,467	1,259,047
Net Assets			
253.1 Invested in Capital Assets, Net of Related Debt	1,619,389	680,990	2,300,379
253.2 Restricted for Debt Service	41,625	4,956	46,581
252.0 Unrestricted Net Assets	306,534	64,987	371,521
Total Net Assets	1,967,548	750,933	2,718,481
Total Liabilities and Net Assets	\$ 3,042,128	\$ 935,400	\$ 3,977,528

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Operating Revenue			
380 Charges for Goods and Services:			
Security for Revenue Bonds	\$ 203,249	\$ 137,980	\$ 341,229
Total Operating Revenue	203,249	137,980	341,229
Operating Expenses			
410 Personal Services	57,272	68,767	126,039
420 Other Current Expense	44,296	33,361	77,657
457 Depreciation	65,767	63,911	129,678
Total Operating Expenses	167,335	166,039	333,374
Operating Income (Loss)	35,914	(28,059)	7,855
Non-Operating Income (Expense)			
361 Earnings on Deposits and Investments	7,237	1,356	8,593
470 Interest Expense and Fiscal Charges	(25,183)	(8,736)	(33,919)
Total Non-Operating Expense	(17,946)	(7,380)	(25,326)
Income (Loss) Before Contributions and Transfers	17,968	(35,439)	(17,471)
331 Capital Grant	566,326	-	566,326
511 Transfers Out (Note 8)	(9,538)	(1,356)	(10,894)
	556,788	(1,356)	555,432
Net Income (Loss)	574,756	(36,795)	537,961
Net Assets - December 31, 2007	1,392,792	787,728	2,180,520
Net Assets - December 31, 2008	\$ 1,967,548	\$ 750,933	\$ 2,718,481

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Water Fund	Sewer Fund	Total Proprietary Funds
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 203,883	\$ 139,620	\$ 343,503
Payments to Suppliers	(57,009)	(33,754)	(90,763)
Payments to Employees	(56,028)	(67,716)	(123,744)
Net Cash Flows Provided by Operating Activities	90,846	38,150	128,996
Cash Flows Used in Noncapital Financing Activities:			
Transfers Out	(9,538)	(1,356)	(10,894)
Cash Flows From Capital and Related Financing Activities:			
Purchase of Capital Assets	(411,534)	-	(411,534)
Principal Paid on Capital Debt	(903,000)	(23,146)	(926,146)
Proceeds on Capital Debt	893,970	-	893,970
Accounts Payable Paid on Purchase of Capital Assets	(75,598)	-	(75,598)
Capital Grants	455,375	-	455,375
Interest Expense	(14,030)	(8,736)	(22,766)
Net Cash Flows Used in Capital and Related Financing Activities	(54,817)	(31,882)	(86,699)
Cash Flows Provided by Investing Activities:			
Interest Earned	7,237	1,356	8,593
Increase in Cash and Cash Equivalents	33,728	6,268	39,996
Cash and Cash Equivalents - December 31, 2007	345,387	64,752	410,139
Cash and Cash Equivalents - December 31, 2008	\$ 379,115	\$ 71,020	\$ 450,135
Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by Operating Activities			
Operating Income (Loss)	\$ 35,914	\$ (28,059)	\$ 7,855
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by Operating Activities:</i>			
Depreciation Expense	65,767	63,911	129,678
Change in Assets and Liabilities:			
Accounts Receivable	(482)	454	(28)
Accounts Payable	(12,713)	(393)	(13,106)
Accrued Wages Payable	1,985	1,800	3,785
Customer Deposits	1,116	1,186	2,302
Accrued Leave Payable	(741)	(749)	(1,490)
Net Cash Flows Provided by Operating Activities	\$ 90,846	\$ 38,150	\$ 128,996
Noncash Capital and Related Financing Activities			
Capital Grants Receivable	\$ 110,951	\$ -	\$ 110,951
Purchase of Capital Assets Included in Accounts Payable	110,951	-	110,951

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets:			
Cash	\$ 613,447	\$ 298,342	\$ 911,789
Accounts Receivable	193,183	34,885	228,068
Restricted Investments	14,718	111,797	126,515
Deposit	12,250	-	12,250
Capital Assets (Note 6):			
Land, Improvements and Construction in Progress	20,200	1,329,662	1,349,862
Other Capital Assets, Net of Depreciation	1,003,217	1,650,029	2,653,246
TOTAL ASSETS	\$ 1,857,015	\$ 3,424,715	\$ 5,281,730
Liabilities:			
Accounts Payable	\$ 9,553	\$ 92,926	\$ 102,479
Other Current Liabilities	10,574	53,313	63,887
Noncurrent Liabilities (Note 7):			
Due Within One Year	92,968	928,836	1,021,804
Due in More Than One Year	531,535	169,120	700,655
TOTAL LIABILITIES	644,630	1,244,195	1,888,825
Net Assets:			
Invested in Capital Assets, Net of Related Debt	405,985	1,884,425	2,290,410
Restricted for:			
Debt Service	93,084	4,956	98,040
Deposit - SDPAA	12,250	-	12,250
Unrestricted	701,066	291,139	992,205
TOTAL NET ASSETS	1,212,385	2,180,520	3,392,905
TOTAL LIABILITIES AND NET ASSETS	\$ 1,857,015	\$ 3,424,715	\$ 5,281,730

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

Functions/Programs	Expenses	--- Program Revenues ---			Net (Expense) Revenue and		Total
		Charges	Capital	Governmental	Business-type	Changes in Net Assets	
		for Services	Grants and Contributions	Activities	Activities		
Primary Government							
Governmental Activities:							
General Government	\$ 134,634	\$ 14,942	\$ -	\$ (119,692)	\$ -	\$ (119,692)	
Public Safety	137,572	10,207	-	(127,365)	-	(127,365)	
Public Works	116,452	38,956	6,159	(71,337)	-	(71,337)	
Culture and Recreation	106,389	6,371	-	(100,018)	-	(100,018)	
Conservation and Development	1,009	-	-	(1,009)	-	(1,009)	
Miscellaneous	142,651	196,476	-	53,825	-	53,825	
Interest on Long Term Debt	29,484	-	-	(29,484)	-	(29,484)	
Total Governmental Activities	668,191	266,952	6,159	(395,080)	-	(395,080)	
Business-type Activities:							
Water	137,927	199,031	-	-	61,104	61,104	
Sewer	165,517	135,665	-	-	(29,852)	(29,852)	
Total Business-type Activities	303,444	334,696	-	-	31,252	31,252	
Total Primary Government	\$ 971,635	\$ 601,648	\$ 6,159	(395,080)	31,252	(363,828)	
General Revenues:							
Taxes:							
Property Taxes				208,197	-	208,197	
Sales Taxes				225,435	-	225,435	
State Shared Revenue				27,157	-	27,157	
Grants and Contributions Not Restricted				-	-	-	
Unrestricted Investment Earnings				20,691	20,932	41,623	
Miscellaneous Revenue				1,087	-	1,087	
Gain on Disposal of Capital Assets				200	-	200	
Transfers				17,693	(17,693)	-	
Total General Revenue and Transfers				500,460	3,239	503,699	
Change in Net Assets				105,380	34,491	139,871	
Net Assets, Beginning (Note 12)				1,107,005	2,146,029	3,253,034	
Net Assets, Ending				\$ 1,212,385	\$ 2,180,520	\$ 3,392,905	

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	<u>General Fund</u>	<u>Library Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Economic Development Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Assets						
101 Cash (Note 2)	\$ 326,552	\$ 35,916	\$ 41,711	\$ 130,902	\$ 78,366	\$ 613,447
107 Restricted Investments (Note 2)	14,718	-	-	-	-	14,718
108 Property Taxes Receivable	5,063	-	-	-	-	5,063
110 Sales Taxes Receivable	15,540	-	-	-	-	15,540
115 Accounts Receivable	17,647	-	409	-	-	18,056
121 Special Assessments Receivable	-	-	-	-	75,180	75,180
128 Notes Receivable (Note 4)	-	-	-	39,344	-	39,344
128 Loan Receivable - West River Foundation	-	-	-	40,000	-	40,000
154 Deposit (Note 11)	12,250	-	-	-	-	12,250
Total Assets	\$ 391,770	\$ 35,916	\$ 42,120	\$ 210,246	\$ 153,546	\$ 833,598
Liabilities and Fund Balances						
<i>Liabilities</i>						
202 Accounts Payable	\$ 9,134	\$ 419	\$ -	\$ -	\$ -	\$ 9,553
216 Accrued Wages Payable	6,812	1,062	-	-	-	7,874
220 Customer Deposits	2,700	-	-	-	-	2,700
224 Deferred Revenue (Note 3)	5,064	-	-	-	75,180	80,244
Total Liabilities	23,710	1,481	-	-	75,180	100,371
<i>Fund Balances</i>						
<i>261 Reserved Fund Balances</i>						
261.04 Reserved for Debt Service	14,718	-	-	-	-	14,718
261.16 Reserved for Notes Receivable	-	-	-	39,344	-	39,344
261.16 Reserved for Loan Receivable - West River Foundation	-	-	-	40,000	-	40,000
261.16 Reserved for Deposit - SDPAA	12,250	-	-	-	-	12,250
<i>262 Unreserved Fund Balances</i>						
262.03 Designated - Capital Outlay	-	20,000	-	-	-	20,000
262.09 Undesignated	341,092	14,435	42,120	130,902	78,366	606,915
Total Fund Balances	368,060	34,435	42,120	210,246	78,366	733,227
Total Liabilities and Fund Balances	\$ 391,770	\$ 35,916	\$ 42,120	\$ 210,246	\$ 153,546	\$ 833,598

The accompanying notes are an integral part of the financial statements.

CITY OF WHITE WOOD

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

Total Fund Balances - Governmental Funds	\$ 733,227
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Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,023,417
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Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(624,503)
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Assets, such as delinquent taxes receivable and special assessments receivable, are not available to pay for current period expenditures and therefore are deferred in the funds.	80,244
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Total Net Assets - Governmental Funds	\$ 1,212,385
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The accompanying notes are an integral part of the financial statements.

Tax Increment	
District #1 -	Total
Debt Service	Governmental
<u>Fund</u>	<u>Funds</u>

\$ 15,336	\$ 207,673
-	225,435
-	168
-	895
-	14,942
-	641
-	5,898
-	5,829
-	6,996
-	20,618
-	1,609
-	8,106
-	24,258
-	188
-	6,371
-	264
-	1,618
-	295
-	20,691
-	26,859
-	196,476
-	1,087
<u>15,336</u>	<u>776,917</u>

CITY OF WHITEWOOD

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>General Fund</u>	<u>Library Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Economic Development Fund</u>	<u>Debt Service Fund</u>	<u>Tax Increment District #1 - Debt Service Fund</u>	<u>Total Governmental Funds</u>
Expenditures							
<i>General Government:</i>							
411 Legislative	43,079	-	-	-	-	-	43,079
412 Executive	3,665	-	-	-	-	-	3,665
413 Elections	406	-	-	-	-	-	406
414 Financial Administration	48,315	-	-	-	-	-	48,315
419 Other	39,169	-	-	-	-	-	39,169
<i>Public Safety:</i>							
421 Police	123,257	-	-	-	-	-	123,257
422 Fire	1,557	-	-	-	-	-	1,557
423 Protective Inspection	9,595	-	-	-	-	-	9,595
<i>Public Works:</i>							
431 Highway and Streets	67,762	-	-	-	-	-	67,762
432 Sanitation	25,350	-	-	-	-	-	25,350
<i>Culture and Recreation:</i>							
452 Parks	35,371	-	-	-	-	-	35,371
455 Library	-	57,551	-	-	-	-	57,551
<i>Conservation and Development:</i>							
465 Economic Development	300	-	709	-	-	-	1,009
470 Debt Service	31,518	-	-	-	27,128	15,336	73,982
485 Capital Outlay	13,835	-	-	-	-	-	13,835
<i>Miscellaneous:</i>							
499 Liquor Operating Agreements	142,651	-	-	-	-	-	142,651
Total Expenditures	585,830	57,551	709	-	27,128	15,336	686,554
Other Financing Sources (Uses)							
391.1 Transfers In (Note 8)	24,227	-	-	-	-	-	24,227
511 Transfers Out (Note 8)	-	-	(1,051)	(3,097)	(2,386)	-	(6,534)
391.3 Proceeds from Sale of Capital Assets	200	-	-	-	-	-	200
Total Other Financing Sources (Uses)	24,427	-	(1,051)	(3,097)	(2,386)	-	17,893
Net Change in Fund Balances	91,805	272	13,565	2,963	(349)	-	108,256
Fund Balances - December 31, 2006 (Note 12)	276,255	34,163	28,555	207,283	78,715	-	624,971
Fund Balances - December 31, 2007	\$ 368,060	\$ 34,435	\$ 42,120	\$ 210,246	\$ 78,366	\$ -	\$ 733,227

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Net change in fund balances - total government funds \$ 108,256

Amounts reported for governmental activities in the Statement of Activities
are different because:

This amount represents capital asset purchases which are reported as
expenditures on the fund financial statements, but increase assets on the
government-wide statements. 13,835

This amount represents the current year depreciation expense reported in
the Statement of Activities, which is not reported on the fund financial
statements because it does not require the use of current financial resources. (37,652)

The fund financial statement governmental fund property tax accruals differ
from the government-wide statement property tax accruals in that the fund
financial statements require the amounts to be "available." (539)

Governmental funds report special assessments as revenue when available,
but the Statement of Activities includes the full amount of special
assessments as revenue upon completion of the project at the point when an
enforceable legal claim arises. (20,700)

Repayment of bond principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the Statement of Net
Assets. 44,498

Governmental funds do not reflect the change in accrued leave, but the
Statement of Activities reflects the change in accrued leave through
expenditures. (2,318)

Change in Net Assets of Governmental Activities	\$ 105,380
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The accompanying notes are an integral part of the financial statements.

CITY OF WHITE WOOD

**BALANCE SHEET
PROPRIETARY FUNDS
DECEMBER 31, 2007**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Assets			
Current Assets			
101 Cash (Note 2)	\$ 258,136	\$ 40,206	\$ 298,342
107 Restricted Cash (Note 2)	87,251	24,546	111,797
115 Accounts Receivable	15,338	11,108	26,446
117 Unbilled Accounts Receivable	4,823	3,616	8,439
Total Current Assets	365,548	79,476	445,024
Capital Assets (Note 6)			
160 Land	-	23,253	23,253
162 Buildings	103,526	845,641	949,167
163 Accumulated Depreciation - Buildings	(61,782)	(572,640)	(634,422)
164 Improvements Other Than Buildings	1,032,215	867,114	1,899,329
165 Accumulated Depreciation - Improvements Other than Buildings	(340,563)	(265,713)	(606,276)
166 Machinery and Equipment	74,105	38,893	112,998
167 Accumulated Depreciation - Machinery and Equipment	(48,240)	(22,527)	(70,767)
168 Construction Work in Progress	1,306,409	-	1,306,409
Total Capital Assets, Net	2,065,670	914,021	2,979,691
Total Assets	\$ 2,431,218	\$ 993,497	\$ 3,424,715
Liabilities and Net Assets			
Current Liabilities			
202 Accounts Payable	\$ 90,849	\$ 2,077	\$ 92,926
205 Current Portion of Long-Term Debt (Note 7)	903,000	23,146	926,146
215 Accrued Interest Payable	26,621	-	26,621
216 Accrued Wages Payable	1,411	1,411	2,822
220 Customer Deposits	15,200	8,670	23,870
233 Accrued Leave Payable (Note 7)	1,345	1,345	2,690
Total Current Liabilities	1,038,426	36,649	1,075,075
Long-Term Liabilities			
237 Long-Term Debt, Net of Current Portion (Note 7)	-	169,120	169,120
Total Liabilities	1,038,426	205,769	1,244,195
Net Assets			
253.1 Invested in Capital Assets, Net of Related Debt	1,162,670	721,755	1,884,425
253.2 Restricted for Debt Service	-	4,956	4,956
252.0 Unrestricted Net Assets	230,122	61,017	291,139
Total Net Assets	1,392,792	787,728	2,180,520
Total Liabilities and Net Assets	\$ 2,431,218	\$ 993,497	\$ 3,424,715

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Operating Revenue			
380 Charges for Goods and Services	\$ 199,031	\$ -	\$ 199,031
380 Charges for Goods and Services: Security for Revenue Bonds	-	135,665	135,665
Total Operating Revenue	199,031	135,665	334,696
Operating Expenses			
410 Personal Services	51,096	57,790	108,886
420 Other Current Expense	48,069	34,027	82,096
457 Depreciation	29,762	65,714	95,476
Total Operating Expenses	128,927	157,531	286,458
Operating Income (Loss)	70,104	(21,866)	48,238
Non-Operating Income (Expense)			
361 Earnings on Deposits and Investments	19,104	1,828	20,932
470 Interest Expense and Fiscal Charges	(9,000)	(7,986)	(16,986)
Total Non-Operating Income (Expense)	10,104	(6,158)	3,946
Income (Loss) Before Contributions and Transfers	80,208	(28,024)	52,184
511 Transfers Out (Note 8)	(15,800)	(1,893)	(17,693)
Net Income (Loss)	64,408	(29,917)	34,491
Net Assets - December 31, 2006	1,328,384	817,645	2,146,029
Net Assets - December 31, 2007	\$ 1,392,792	\$ 787,728	\$ 2,180,520

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 196,908	\$ 137,044	\$ 333,952
Payments to Suppliers	(34,809)	(33,519)	(68,328)
Payments to Employees	(49,241)	(55,935)	(105,176)
Net Cash Flows Provided by Operating Activities	112,858	47,590	160,448
Cash Flows Used in Noncapital Financing Activities:			
Transfers Out	(15,800)	(1,893)	(17,693)
Cash Flows From Capital and Related Financing Activities:			
Purchase of Capital Assets	(1,165,484)	(5,539)	(1,171,023)
Principal Paid on Capital Debt	-	(28,013)	(28,013)
Proceeds on Capital Debt	903,000	-	903,000
Interest Expense	(9,000)	(7,986)	(16,986)
Net Cash Flows Used in Capital and Related Financing Activities	(271,484)	(41,538)	(313,022)
Cash Flows Provided by Investing Activities:			
Interest Earned	19,104	1,828	20,932
Increase (Decrease) in Cash and Cash Equivalents	(155,322)	5,987	(149,335)
Cash and Cash Equivalents - December 31, 2006	500,709	58,765	559,474
Cash and Cash Equivalents - December 31, 2007	\$ 345,387	\$ 64,752	\$ 410,139
Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by Operating Activities			
Operating Income (Loss)	\$ 70,104	\$ (21,866)	\$ 48,238
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by Operating Activities:</i>			
Depreciation Expense	29,762	65,714	95,476
Change in Assets and Liabilities:			
Accounts Receivable	(2,976)	123	(2,853)
Accounts Payable	13,260	508	13,768
Accrued Wages Payable	1,411	1,411	2,822
Customer Deposits	853	1,256	2,109
Accrued Leave Payable	444	444	888
Net Cash Flows Provided by Operating Activities	\$ 112,858	\$ 47,590	\$ 160,448
Noncash Capital and Related Financing Activities			
Purchases of Capital Assets Included in Accounts Payable	\$ 75,598	\$ -	\$ 75,598
Capitalized Interest	26,621	-	26,621

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

(1) Summary of Significant Accounting Policies

a. Reporting Entity

The reporting entity of the City of Whitewood (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The City participates in a cooperative unit with Northern Hills Multi-Jurisdictional Drug Task Force. See Note 10 entitled Joint Venture for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

b. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008 AND 2007

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the City financial reporting entity are described below:

Governmental Funds:

General Fund – the General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Library Fund – to account for the fines and similar charges deposited into the library board bank account. (SDCL 14-2-42) This fund is a major fund.

Additional Sales Tax Fund – to account for an additional one percent gross receipts tax which may be used only for acquisition of land, capital improvement, and promotion of the City. This fund is a major fund.

Economic Development Fund – to account for the CDBG monies received in 1991. The money is used to create revolving loans for economic development purposes. This fund is a major fund.

Debt Service Funds – debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Special Assessment Debt Service Fund – to account for assessment payments from property owners which are used only for the payment of the Special Assessment debt principal, interest, and related cost. This fund is a major fund.

Tax Incremental District #1 Debt Service Fund – to account for the property tax revenue received on the tax increment district to finance debt service and capital construction related to infrastructure improvement made within the tax increment district. This fund is a major fund.

Proprietary Funds:

Enterprise Funds – enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008 AND 2007

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Proprietary Funds (Continued):

The enterprise funds apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Water Fund – financed primarily by user charges. This fund accounts for the construction and operation of the City waterworks system and related facilities (SDCL 9-47-1). This is a major fund.

Sewer Fund – financed primarily by user charges. This fund accounts for the construction and operation of the City sanitary sewer system and related facilities (SDCL 9-48-2). This is a major fund.

c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus and the modified-accrual basis of accounting are applied to governmental fund types, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary fund types.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Whitewood, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2008 and 2007, are property and sales tax receivable, and special assessments receivable.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008 AND 2007

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting (Continued):

Fund Financial Statements (Continued):

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. There are no significant inter-fund utility charges.

d. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements:

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the donation date. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

Approximately ten percent of the total December 31, 2004, balance of the governmental activities and business-type capital assets included costs that were determined by estimations of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004, are recorded at cost, and classified as "Improvements Other than Buildings".

Construction-period interest for capital assets used in governmental activities is not capitalized in accordance with USGAAP; however, construction period interest for capital assets used in business-type activities/proprietary fund's operations, is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008 AND 2007

(1) Summary of Significant Accounting Policies (Continued)

d. Capital Assets (Continued)

Government-wide Financial Statements: (Continued)

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ -0-	-----N/A-----	-----N/A-----
Improvements Other Than Buildings	\$ 10,000	Straight-line	15-75 yrs.
Buildings	\$ -0-	Straight-line	50 yrs.
Machinery and Equipment	\$ 2,500	Straight-line	5-20 yrs.

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as Capital Outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

e. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of sales tax revenue bonds, state revolving loan funds, special assessment debt, Rural Development loans and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis for both the fund and the government-wide financial statements.

f. Program Revenues

Program revenues are derived directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for use in a particular program.
3. Program-specific capital grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for the acquisition of capital assets for use in a particular program.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008 AND 2007

(1) Summary of Significant Accounting Policies (Concluded)

g. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

h. Cash and Cash Equivalents

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of the cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool, including restricted investments, is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

i. Equity Classifications

Government-wide Financial Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt – consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) laws through constitutional provisions or enabling legislation.
3. Unrestricted net assets – all other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

j. Application of Net Assets

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

k. Inventory

The City maintains no significant amounts of inventory at December 31, 2008 and 2007.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007

(2) Deposits and Investments

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The City’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation duly authorized to do business in South Dakota.

Investments – In General, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

Investments of the City consist of the following:

	<u>Credit Rating</u>	<u>Maturity</u>	<u>Fair Value at 12/31/2008</u>
U.S. Government Securities:			
Federal Home Loan Mortgage Corporation Notes	Unrated	30 years	\$ 18,803
United States Treasury Note	AAA	2-10 years	45,452
Federal National Mortgage Association Notes	AAA	5 - 30 years	81,073
External Investment Pools:			
SDFIT	Unrated		360,917
Total Investments			\$ 506,245

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008 AND 2007

(2) Deposits and Investments (Continued)

Credit Risk:

State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices. As of December 31, 2008 and 2007, the City's investment in SDFIT pool was unrated.

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

Custodial Credit Risk:

The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2008 and 2007, none of the City's deposits were exposed to custodial credit risk.

Interest Rate Risk:

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income:

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy per ordinance is to credit all income from investments to the fund making the investment and then transferring the cash to the general fund for spending purposes, except for the library fund.

(3) Deferred Revenue

Under the modified-accrual basis of accounting, receivables may be measurable but not available. Receivables are considered available if they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are deferred when the asset recognition criteria have been met, but the revenue recognition criteria have not been met. Deferred revenues consist primarily of delinquent property taxes receivable and special assessments receivable.

(4) Notes Receivable

The City has a note receivable from Jenwood, LLC with a balance of \$32,240 and \$39,344 as of December 31, 2008 and 2007, respectively. The note is due in monthly installments of \$742, including interest at five percent. The note receivable is secured by property and matures in December 2012.

(5) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007

(6) Changes in Capital Assets

A summary of changes in capital assets for year ending December 31 is as follows:

	Balance 1/1/2008	Additions	Deletions	Balance 12/31/2008
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 20,200	\$ -	\$ -	\$ 20,200
Total Capital Assets, not being Depreciated	20,200	-	-	20,200
Capital Assets, being Depreciated:				
Buildings	214,000	-	-	214,000
Improvements Other Than Buildings	815,515	-	-	815,515
Machinery and Equipment	344,578	-	-	344,578
Total Capital Assets, being Depreciated	1,374,093	-	-	1,374,093
Less Accumulated Depreciation for:				
Buildings	58,320	4,180	-	62,500
Improvements Other Than Buildings	76,977	16,975	-	93,952
Machinery and Equipment	235,579	19,017	-	254,596
Total Accumulated Depreciation	370,876	40,172	-	411,048
Total Governmental Activities Capital Assets, being Depreciated, Net	1,003,217	(40,172)	-	963,045
Total Governmental Capital Assets, Net	\$ 1,023,417	\$ (40,172)	\$ -	\$ 983,245

Depreciation expense was charged to functions as follows:

Public Works	\$ 21,741
Culture and Recreation	13,868
Public Safety	4,563
Total Depreciation Expense - Governmental	\$ 40,172

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007

(6) Changes in Capital Assets (Continued)

	Balance 1/1/2008	Additions	Deletions	Balance 12/31/2008
<i>Business-type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 23,253	\$ -	\$ -	\$ 23,253
Construction Work in Progress	1,306,409	522,485	1,828,894	-
Total Capital Assets, not being Depreciated	1,329,662	522,485	1,828,894	23,253
Capital Assets, being Depreciated:				
Buildings	949,167	561,202	-	1,510,369
Improvements Other Than Buildings	1,899,329	1,267,693	-	3,167,022
Machinery and Equipment	112,998	-	-	112,998
Total Capital Assets, being Depreciated	2,961,494	1,828,895	-	4,790,389
Less Accumulated Depreciation for:				
Buildings	634,422	55,643	-	690,065
Improvements Other Than Buildings	606,276	64,809	-	671,085
Machinery and Equipment	70,767	9,226	-	79,993
Total Accumulated Depreciation	1,311,465	129,678	-	1,441,143
Total Business-type Activities Capital Assets, being Depreciated, Net	1,650,029	1,699,217	-	3,349,246
Total Business-type Capital Assets, Net	\$ 2,979,691	\$ 2,221,702	\$ 1,828,894	\$ 3,372,499

Depreciation expense was charged to functions as follows:

Water	\$ 65,767
Sewer	63,911
Total Depreciation Expense - Business-type	\$ 129,678

Construction Work in Progress as of December 31, 2007, for business-type activities is for a water project, which was funded by the Water Fund through current City funds, and grant and loan funding from Rural Development. The project was completed during 2008.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007

(6) Changes in Capital Assets (Continued)

A summary of changes in capital assets for year ending December 31 is as follows:

<i>Governmental Activities:</i>	Balance <u>1/1/2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2007</u>
Capital Assets, not being Depreciated:				
Land	\$ 20,200	\$ -	\$ -	\$ 20,200
Total Capital Assets, not being Depreciated	20,200	-	-	20,200
Capital Assets, being Depreciated:				
Buildings	214,000	-	-	214,000
Improvements Other Than Buildings	815,515	-	-	815,515
Machinery and Equipment	330,743	13,835	-	344,578
Total Capital Assets, being Depreciated	1,360,258	13,835	-	1,374,093
Less Accumulated Depreciation for:				
Buildings	54,140	4,180	-	58,320
Improvements Other Than Buildings	60,002	16,975	-	76,977
Machinery and Equipment	219,082	16,497	-	235,579
Total Accumulated Depreciation	333,224	37,652	-	370,876
Total Governmental Activities Capital Assets, being Depreciated, Net	1,027,034	(23,817)	-	1,003,217
Total Governmental Capital Assets, Net	\$ 1,047,234	\$ (23,817)	\$ -	\$ 1,023,417

Depreciation expense was charged to functions as follows:

Public Works	\$ 21,022
Culture and Recreation	13,467
Public Safety	3,163
Total Depreciation Expense - Governmental	\$ 37,652

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007

(6) Changes in Capital Assets (Concluded)

	Balance 1/1/2007	Additions	Deletions	Balance 12/31/2007
<i>Business-type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 23,253	\$ -	\$ -	\$ 23,253
Construction Work in Progress	44,243	1,262,166	-	1,306,409
Total Capital Assets, not being Depreciated	67,496	1,262,166	-	1,329,662
Capital Assets, being Depreciated:				
Buildings	949,167	-	-	949,167
Improvements Other Than Buildings	1,899,329	-	-	1,899,329
Machinery and Equipment	101,922	11,076	-	112,998
Total Capital Assets, being Depreciated	2,950,418	11,076	-	2,961,494
Less Accumulated Depreciation for:				
Buildings	590,002	44,420	-	634,422
Improvements Other Than Buildings	566,176	40,100	-	606,276
Machinery and Equipment	59,811	10,956	-	70,767
Total Accumulated Depreciation	1,215,989	95,476	-	1,311,465
Total Business-type Activities Capital Assets, being Depreciated, Net	1,734,429	(84,400)	-	1,650,029
Total Business-type Capital Assets, Net	\$ 1,801,925	\$ 1,177,766	\$ -	\$ 2,979,691

Depreciation expense was charged to functions as follows:

Water	\$ 29,762
Sewer	65,714
Total Depreciation Expense - Business-type	\$ 95,476

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007

(7) Long-Term Debt

The following is a summary of the long-term debt activity for the year ending December 31:

	Balance 1/1/2008	Earned/ Borrowings	Used/ Repayments	Balance 12/31/2008	Due Within One Year
Primary Government:					
Governmental Activities:					
Sales Tax Revenue Bonds	\$ 224,556	\$ -	\$ 21,905	\$ 202,651	\$ 5,852
Tax Incremental District #1	233,433	-	44,151	189,282	50,344
Special Assessment Bonds	159,443	-	19,841	139,602	20,747
Compensated Absences	7,071	6,450	10,245	3,276	3,276
Total Governmental Activities	624,503	6,450	96,142	534,811	80,219
Business-type Activities:					
Water Revenue Bonds	-	903,000	-	903,000	8,243
Bond Anticipation Note	903,000	-	903,000	-	-
State Revolving Fund Loans	158,001	-	19,619	138,382	8,188
Rural Development Loan	34,265	-	3,527	30,738	3,675
Compensated Absences	2,690	2,683	4,173	1,200	1,200
Total Business-Type Activities	1,097,956	905,683	930,319	1,073,320	21,306
Total Primary Government	\$ 1,722,459	\$ 912,133	\$ 1,026,461	\$ 1,608,131	\$ 101,525

	Balance 1/1/2007	Earned/ Borrowings	Used/ Repayments	Balance 12/31/2007	Due Within One Year
Primary Government:					
Governmental Activities:					
Tax Incremental District #1 (Note 12)	\$ 238,000	\$ -	\$ 4,567	\$ 233,433	\$ 44,151
Sales Tax Revenue Bonds	245,513	-	20,957	224,556	21,905
Special Assessment Bonds	178,417	-	18,974	159,443	19,841
Compensated Absences	4,753	5,207	2,889	7,071	7,071
Total Governmental Activities	666,683	5,207	47,387	624,503	92,968
Business-type Activities:					
Bond Anticipation Note	-	903,000	-	903,000	903,000
State Revolving Fund Loans	182,443	-	24,442	158,001	19,619
Rural Development Loan	37,836	-	3,571	34,265	3,527
Compensated Absences	1,802	3,111	2,223	2,690	2,690
Total Business-type Activities	222,081	906,111	30,236	1,097,956	928,836
Total Primary Government	\$ 888,764	\$ 911,318	\$ 77,623	\$ 1,722,459	\$ 1,021,804

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007

(7) Long-Term Debt (Continued)

Long-term debt at December 31, is comprised of the following:

	<u>2008</u>	<u>2007</u>
<i>Revenue Bonds</i>		
Rural Development Water Revenue Bonds, Series 2007; bears interest at 4.375 percent; due in monthly installments of \$4,028 through January 2048. Financed through the Water Fund.	\$ 903,000	\$ -
Wells Fargo Bond Anticipation Note; bears interest at 3.96 percent; due in full in June 2008. Refinanced by Rural Development Water Revenue Bonds.	-	903,000
Sales Tax Revenue Bond, Series 2004; bears interest at 4.375 percent; due in monthly installments of \$1,267 through June 2044. Financed through the General Fund.	202,651	224,556
<i>Special Assessments:</i>		
Special Assessment Bond, Series 2004; bears interest at 4.57 percent; due in annual installments of \$27,127 through June 2014. Financed through the Debt Service Fund.	139,602	159,443
<i>Tax Incremental Financing Notes (Note 12):</i>		
Tax Incremental District #1; bears interest at 8 percent; due in varying installments within 30 days of property tax collection from the county. Repayment is limited to incremental property taxes collected. Financed through the TIF #1 Debt Service Fund.	189,282	233,433
<i>State Revolving Fund Revenue Bonds:</i>		
State Revolving Fund Revenue Bonds, 1992; bears interest at 4 percent; due in quarterly installments of \$4,022 through September 2008. Financed through the Sewer Fund.	-	11,828
State Revolving Fund Revenue Bonds, 2001; bears interest at 5 percent; due in quarterly installments of \$3,739 through July 2021. Financed through the Sewer Fund.	138,382	146,173
<i>Loan:</i>		
Rural Development Loan, 2006; bears interest at 4.375 percent; due in monthly installments of \$413 through April 2016. Financed through the Sewer Fund.	30,738	34,265
	<u>1,603,655</u>	<u>1,712,698</u>
<i>Compensated Absences</i>		
General Fund	2,931	6,299
Library Fund	345	772
Water Fund	604	1,345
Sewer Fund	596	1,345
Total Compensated Absences	<u>4,476</u>	<u>9,761</u>
Total Long-Term Debt	\$ 1,608,131	\$ 1,722,459

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007

(7) Long-Term Debt (Concluded)

The annual requirements to amortize long-term debt outstanding as of December 31, 2008, except for compensated absences are as follows:

	Revenue Bonds		Special Assessments		TID #1	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2009	\$ 85,239	\$ 14,095	\$ 6,380	\$ 20,747	\$ 15,143	\$ 50,344
2010	47,569	15,485	5,432	21,696	11,115	46,739
2011	46,884	16,170	4,440	22,687	7,376	68,748
2012	46,167	16,887	3,403	23,724	1,876	23,451
2013	45,419	17,635	2,319	24,808	-	-
2014-2018	188,103	127,167	1,186	25,940	-	-
2019-2023	170,314	144,956	-	-	-	-
2024-2028	148,763	130,056	-	-	-	-
2029-2033	124,152	117,528	-	-	-	-
2034-2038	95,472	146,208	-	-	-	-
2039-2043	59,794	181,886	-	-	-	-
2044-2048	16,366	177,578	-	-	-	-
Total	\$ 1,074,242	\$ 1,105,651	\$ 23,160	\$ 139,602	\$ 35,510	\$ 189,282

	State Revolving		Loan		Total	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2009	\$ 6,767	\$ 8,188	\$ 1,281	\$ 3,675	\$ 114,810	\$ 97,049
2010	6,350	8,605	1,117	3,839	71,583	96,364
2011	5,912	9,043	946	4,010	65,558	120,658
2012	5,451	9,504	766	4,190	57,663	77,756
2013	4,967	9,988	579	4,377	53,284	56,808
2014-2018	16,662	58,113	577	10,647	206,528	221,867
2019-2023	2,447	34,941	-	-	172,761	179,897
2024-2028	-	-	-	-	148,763	130,056
2029-2033	-	-	-	-	124,152	117,528
2034-2038	-	-	-	-	95,472	146,208
2039-2043	-	-	-	-	59,794	181,886
2044-2048	-	-	-	-	16,366	177,578
Total	\$ 48,556	\$ 138,382	\$ 5,266	\$ 30,738	\$ 1,186,734	\$ 1,603,655

Interest totaling \$10,302 and \$8,766 was capitalized for the years ended December 31, 2008 and 2007, respectively.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007

(8) Interfund Transfers

Interfund transfers during the year ended December 31, were as follows:

Funds	2008		2007	
	Transfers In	Transfers Out	Transfers In	Transfers Out
General Fund	\$ 15,809	\$ -	\$ 24,227	\$ -
Additional Sales Tax Fund	-	977	-	1,051
Economic Development Fund	-	2,669	-	3,097
Debt Service Fund	-	1,269	-	2,386
Water Fund	-	9,538	-	15,800
Sewer Fund	-	1,356	-	1,893
Total Transfers	\$ 15,809	\$ 15,809	\$ 24,227	\$ 24,227

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

(9) Retirement Plan -- South Dakota Retirement System

All full-time employees participate in the South Dakota Retirement System (SDRS), a cost-sharing multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute six percent of their salary to the plan, while public safety and judicial employees contribute eight and nine percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2008, 2007, and 2006 were \$15,612, \$13,308, and \$11,812 respectively, equal to the required contributions each year.

(10) Joint Venture

The City participates in a joint venture, known as the Northern Hills Multi-Jurisdictional Drug Task Force, formed for the purpose of implementing and improving state and local drug law enforcement.

The members of the joint venture, each with 10 percent participation, are as follows:

Butte County	Newell City
Lawrence County	Deadwood City
Meade County	Belle Fourche City
Spearfish City	Lead City
Sturgis City	Whitewood City

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008 AND 2007

(10) Joint Venture (Continued)

The joint venture's governing board is composed of ten representatives, who are the sheriffs from each county and the police chief for each municipality. The board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget.

The City retains no equity in the net assets of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Lawrence County Sheriff's Office.

(11) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2008 and 2007, the City managed its risks as follows:

Employee Health Insurance:

The City previously had been a member of the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes a \$2,500,000 lifetime maximum payment per person. In June 2007, the City changed providers from the South Dakota Municipal League Health Pool of South Dakota to Medica Choice, a commercial provider. The coverage includes a \$2,000,000 lifetime maximum payment per person.

The City does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide liability coverage detailed below, under a claims-made policy, and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for police, fire, and vehicles.

The agreement with the SDPAA provides that the above coverages will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. The City carries a \$2,000 deductible for the police and fire coverage and \$100 to \$250 deductible for the vehicle coverage. As of December 31, 2008 and 2007, the City has a vested balance in the cumulative reserve fund of \$12,250 (Note 12).

The City does not carry additional liability insurance coverage to pay claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2008 AND 2007**

(11) Risk Management (Continued)

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$325,000 of any claim per individual. The pool has reinsurance, which covers up to an additional \$2,000,000 per individual per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Unemployment Benefits:

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

(12) Prior Period Adjustment

A prior period adjustment was recorded as of December 31, 2006 in the amount of \$238,000 increasing liabilities and decreasing the net assets balance as of December 31, 2006 on the Government-wide Statement of Activities. During 2006, the City issued tax increment financing debt, which was not recorded.

A prior period adjustment was recorded as of December 31, 2006 in the amount of \$12,250 increasing assets and increasing the net assets balance as of December 31, 2006 on the Governmental Funds Statement of Revenues, Expenses, and Change in Fund Balances. The City has a vested balance in the SDPAA cumulative reserve fund of \$12,250, which should be included as a deposit on the governmental funds balance sheet (Note 11).

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WHITEWOOD

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
Revenue				
<i>Taxes:</i>				
311 General Property Taxes	\$ 142,687	\$ 142,687	\$ 142,554	\$ (133)
313 General Sales and Use Taxes	145,000	145,000	192,601	47,601
315 Amusement Taxes	-	-	168	168
319 Penalties and Interest on Delinquent Taxes	-	-	748	748
320 Licenses and Permits	5,000	5,000	5,109	109
<i>Intergovernmental Revenue:</i>				
Federal Grants:				
FEMA	-	-	38,736	38,736
State Shared Revenue:				
335.01 Bank Franchise Tax	500	500	552	52
335.03 Liquor Tax Reversion	5,000	5,000	5,136	136
335.04 Motor Vehicle Licenses (5%)	6,000	6,000	5,038	(962)
335.1 Local Government Highway and Bridge Fund	9,000	9,000	8,467	(533)
335.20 Other	15,000	15,000	21,346	6,346
County Shared Revenue:				
338.02 County HBR Tax	1,500	1,500	872	(628)
<i>Charges for Goods and Services:</i>				
344 Sanitation	30,000	30,000	35,412	5,412
345 Health	200	200	267	67
346 Culture and Recreation	3,700	3,700	6,700	3,000
349 Other	1,000	1,000	984	(16)
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	1,000	1,000	300	(700)
359 Other	150	150	210	60
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	10,000	10,000	7,649	(2,351)
367 Contributions and Donations	-	-	11,477	11,477
368 Liquor Operating Agreement Income	69,000	69,000	109,327	40,327
369 Miscellaneous Revenue	-	-	597	597
Total Revenue	444,737	444,737	594,250	149,513

CITY OF WHITEWOOD

BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	Budgetary <u>Basis -</u> <u>Actual</u>	<u>Variance</u>
Expenditures				
<i>General Government:</i>				
411 Legislative	40,300	43,300	24,425	18,875
412 Executive	4,076	4,076	3,965	111
413 Elections	625	625	374	251
414 Financial Administration	49,420	57,420	62,493	(5,073)
419 Other	34,800	34,800	23,198	11,602
<i>Public Safety:</i>				
421 Police	141,055	149,055	144,498	4,557
422 Fire	2,000	2,000	2,023	(23)
423 Protective Inspection	5,000	5,000	5,628	(628)
<i>Public Works:</i>				
431 Highways and Streets	85,285	123,015	98,758	24,257
432 Sanitation	30,000	30,000	35,971	(5,971)
<i>Culture and Recreation:</i>				
452 Parks	35,969	35,969	36,806	(837)
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	300	300	300	-
470 Debt Service	31,520	31,520	31,518	2
499 Liquor Operating Agreements	51,040	68,540	71,016	(2,476)
Total Expenditures	511,390	585,620	540,973	44,647
Excess of Revenue Over (Under)				
Expenditures	(66,653)	(140,883)	53,277	194,160
Other Financing Sources:				
511 Transfers In	-	-	15,809	15,809
Total Other Financing Sources	-	-	15,809	15,809
Net Change in Fund Balance	(66,653)	(140,883)	69,086	209,969
Fund Balance - December 31, 2007	368,060	368,060	368,060	-
Fund Balance - December 31, 2008	\$ 301,407	\$ 227,177	\$ 437,146	\$ 209,969

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF WHITE WOOD

BUDGETARY COMPARISON SCHEDULE
LIBRARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
Revenue				
<i>Taxes:</i>				
313 General Property Taxes	\$ 58,400	\$ 58,400	\$ 58,400	\$ -
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	-	-	847	847
Total Revenue	58,400	58,400	59,247	847
Expenditures				
<i>Culture and Recreation:</i>				
455 Library	58,400	58,400	63,370	(4,970)
Total Expenditures	58,400	58,400	63,370	(4,970)
Net Change in Fund Balance	-	-	(4,123)	(4,123)
Fund Balance - December 31, 2007	34,435	34,435	34,435	-
Fund Balance - December 31, 2008	\$ 34,435	\$ 34,435	\$ 30,312	\$ (4,123)

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF WHITEWOOD

BUDGETARY COMPARISON SCHEDULE
ADDITIONAL SALES TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
Revenue				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 8,000	\$ 8,000	\$ 9,825	\$ 1,825
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	-	-	977	977
Total Revenue	8,000	8,000	10,802	2,802
Expenditures				
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	8,000	8,000	286	7,714
Total Expenditures	8,000	8,000	286	7,714
Other Financing Uses				
391.1 Transfers Out	-	-	(977)	(977)
Net Change in Fund Balance	-	-	9,539	9,539
Fund Balance - December 31, 2007	42,120	42,120	42,120	-
Fund Balance - December 31, 2008	\$ 42,120	\$ 42,120	\$ 51,659	\$ 9,539

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF WHITE WOOD

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

		<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
Revenue					
<i>Taxes:</i>					
311	General Property Taxes	\$ 137,627	\$ 137,627	\$ 136,718	\$ (909)
313	General Sales and Use Taxes	140,000	140,000	211,174	71,174
315	Amusement Taxes	-	-	168	168
319	Penalties and Interest on Delinquent Taxes	-	-	895	895
320	Licenses and Permits	4,000	4,000	14,942	10,942
<i>Intergovernmental Revenue:</i>					
<i>State Shared Revenue:</i>					
335.01	Bank Franchise Tax	500	500	641	141
335.03	Liquor Tax Reversion	4,000	4,000	5,898	1,898
335.04	Motor Vehicle Licenses (5%)	6,000	6,000	5,829	(171)
335.1	Local Government Highway and Bridge Fund	9,000	9,000	6,996	(2,004)
335.20	Other	12,000	12,000	20,618	8,618
<i>County Shared Revenue:</i>					
338.02	County HBR Tax	1,500	1,500	1,609	109
<i>Charges for Goods and Services:</i>					
342	Public Safety	-	-	8,106	8,106
344	Sanitation	21,500	21,500	24,258	2,758
345	Health	200	200	188	(12)
346	Culture and Recreation	3,700	3,700	6,126	2,426
349	Other	1,000	1,000	264	(736)
<i>Fines and Forfeits:</i>					
351	Court Fines and Costs	300	300	1,618	1,318
359	Other	150	150	295	145
<i>Miscellaneous Revenue:</i>					
361	Earnings on Deposits and Investments	10,000	10,000	9,302	(698)
368	Liquor Operating Agreement Income	51,200	51,200	196,476	145,276
369	Miscellaneous Revenue	-	-	1,087	1,087
Total Revenue		402,677	402,677	653,208	250,531

CITY OF WHITEWOOD

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
Expenditures				
<i>General Government:</i>				
411 Legislative	20,970	31,470	43,079	(11,609)
412 Executive	3,710	3,710	3,665	45
413 Elections	625	625	406	219
414 Financial Administration	51,905	51,905	48,315	3,590
419 Other	2,800	22,800	39,169	(16,369)
<i>Public Safety:</i>				
421 Police	129,210	129,210	123,257	5,953
422 Fire	2,000	2,000	1,557	443
423 Protective Inspection	4,000	9,000	9,595	(595)
<i>Public Works:</i>				
431 Highways and Streets	47,950	63,950	73,300	(9,350)
432 Sanitation	12,500	21,500	25,350	(3,850)
<i>Culture and Recreation:</i>				
452 Parks	31,925	42,425	43,668	(1,243)
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	300	300	300	-
470 Debt Service	11,520	31,520	31,518	2
499 Liquor Operating Agreements	16,000	136,000	142,651	(6,651)
Total Expenditures	335,415	546,415	585,830	(39,415)
Excess of Revenue Over (Under)				
Expenditures	67,262	(143,738)	67,378	211,116
Other Financing Sources:				
511 Transfers In	-	-	24,227	24,227
391.3 Proceeds from Sale of Capital Assets	-	-	200	200
Total Other Financing Sources	-	-	24,427	24,427
Net Change in Fund Balance	67,262	(143,738)	91,805	235,543
Fund Balance - December 31, 2006	276,255	276,255	276,255	-
Fund Balance - December 31, 2007	\$ 343,517	\$ 132,517	\$ 368,060	\$ 235,543

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF WHITEWOOD

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
LIBRARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
Revenue				
<i>Taxes:</i>				
313 General Property Taxes	\$ 55,619	\$ 55,619	\$ 55,619	\$ -
<i>Charges for Goods and Services</i>				
346 Culture and Recreation	-	-	245	245
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	-	-	1,959	1,959
Total Revenue	55,619	55,619	57,823	2,204
Expenditures				
<i>Culture and Recreation:</i>				
455 Library	55,619	55,619	57,551	(1,932)
Total Expenditures	55,619	55,619	57,551	(1,932)
Net Change in Fund Balance	-	-	272	272
Fund Balance - December 31, 2006	34,163	34,163	34,163	-
Fund Balance - December 31, 2007	\$ 34,163	\$ 34,163	\$ 34,435	\$ 272

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF WHITEWOOD

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 ADDITIONAL SALES TAX FUND
 FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
Revenue				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 8,000	\$ 8,000	\$ 14,261	\$ 6,261
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	-	-	1,064	1,064
Total Revenue	8,000	8,000	15,325	7,325
Expenditures				
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	8,000	8,000	709	7,291
Total Expenditures	8,000	8,000	709	7,291
Other Financing Uses				
391.1 Transfers Out	-	-	(1,051)	(1,051)
Net Change in Fund Balance	-	-	13,565	13,565
Fund Balance - December 31, 2006	28,555	28,555	28,555	-
Fund Balance - December 31, 2007	\$ 28,555	\$ 28,555	\$ 42,120	\$ 13,565

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF WHITEWOOD

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2008 AND 2007

(1) Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2008 and 2007.
7. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, projects funds and debt service funds.
8. Budgets for the general fund and major special revenue funds are adopted on a basis consistent with the modified-cash basis of accounting, except for the following:

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances; however, in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

SINGLE AUDIT SECTION

CITY OF WHITEWOOD

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008 AND 2007**

The recommendations reported in the prior audit of the City of Whitewood as findings #2006-5, 2006-6, and 2006-7 will be restated on the accompanying Schedule of Current Year Findings, Questioned Costs and Corrective Action Plan. Additionally, prior year findings #2006-1 and 2006-2 are incorporated in Finding #2008-1.

The City implemented portions of recommendations from the prior audit. Therefore, findings #2006-3 and 2006-4 will not be restated in the accompanying Schedule of Current Year Findings, Questioned Costs and Corrective Action Plan.

CITY OF WHITEWOOD

SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN DECEMBER 31, 2008 AND 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Whitewood (the City).
2. Several significant deficiencies disclosed during the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. All of the deficiencies are reported as material weaknesses.
3. An instance of noncompliance material to the financial statements of the City was disclosed during the audit.
4. One significant deficiency disclosed during the audit of the major federal award program was reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133. This deficiency was reported as a material weakness.
5. The auditors' report on compliance for the major federal award program for the City expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for the City are reported in Part C of this schedule.
7. The program tested as a major program included Water and Waste Disposal Systems for Rural Communities Loan and Grant (#10.760).
8. The threshold for distinguishing types A and B programs was \$300,000.
9. The City was not considered a low risk auditee under the criteria established in OMB Circular A-133.

CITY OF WHITEWOOD

SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN (CONTINUED) DECEMBER 31, 2008 AND 2007

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Significant Deficiencies - Material Weaknesses

Finding No. 2006-5: Segregation of Duties

Conditions:

1. All Finance Office employees receive cash from customers and all employees are able to post adjustments to customer accounts, which are currently not being reviewed.
2. The Finance Officer is the one entering invoices, preparing the claims listing, preparing the checks, signing and mailing checks. Additionally, no one is reviewing the cancelled checks.

Criteria and Effect: As a result of the above, an inadequate segregation of duties exists for the cash receipts and disbursement processes.

Questioned Costs: None

Recommendations:

1. We recommend that a report including all adjustments to customer accounts be generated by the Assistant Finance Officer and reviewed by a member of the City Council at least monthly.
2. We recommend that the Assistant Finance Officer prepare the claims listings and mail the checks and that the Finance Officer and a member of the City Council review the cancelled checks.

Response/Corrective Action Plan

1. A policy has been adopted that the Finance Officer is the only individual authorized to make adjustments to customer accounts and reviews the utility billing program periodically to ensure no unauthorized adjustments have been made. Quarterly, the Assistant Finance Officer produces a report of all adjustments made and presents this report to council for review.
2. Assistant Finance Officer will review all claims listings and mail the checks. A member of the council will review the bank statements and cancelled checks monthly.

Finding No. 2006-6: Financial Statement Preparation

Condition: We were requested to draft the audited financial statements, related footnote disclosures, and Schedule of Expenditure of Federal Awards as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for us to do this with municipalities of your size. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy, we have answered any questions they might have, and we have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide the City with the completed financial statements.

CITY OF WHITEWOOD

SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN (CONTINUED) DECEMBER 31, 2008 AND 2007

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Significant Deficiencies - Material Weaknesses (Continued)

Finding No. 2006-6: Financial Statement Preparation (Continued)

Criteria and Effect: It is our responsibility to inform the Council that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the City's management.

Questioned Costs: None

Recommendation: It is the responsibility of management and the City Council to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: The Council will accept the degree of risk associated with this procedure.

Finding No. 2006 – 7: Internal Control over Significant Accounts

Condition: During the course of our engagement, we proposed material audit adjustments that resulted in a \$478,908 increase and a \$21,826 decrease in reported net income in 2008 and 2007, respectively. Adjustments included adjusting debt to actual, recording capital assets and adjusting related expenses to actual, recording accrued wages and related expenses at year-end, and recording and adjusting receivables.

Criteria and Effect: These adjustments would not have been identified as a result of the City's existing internal controls, and therefore, could have resulted in a material misstatement of the City's financial statements.

Questioned Costs: None

Recommendation: We recommend that the City's operation be continually reviewed for potential changes in the accounting processes so that the appropriate journal entries can be made throughout the year. At a minimum, the balance sheet accounts should be adjusted to actual at year end.

Response/Corrective Action Plan: The Finance Officer will review the City's operations closely for changes and make the appropriate journal entries.

Finding No. 2008-1: Internal Control Deficiencies

Conditions: Deficiencies were noted in internal accounting control and record keeping resulting in a diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded. The following deficiencies in internal accounting control and record keeping were noted:

Utility Billing Process

1. The City changed utility billing rates effective the first of the month, which overlaps two billing periods. There was no clarification of which billing period the new rates would become effective.
2. The City did not read the meter of a commercial customer for over one year of time and just charged the customer the minimum billing amount due to restricted access to the meter.
3. The City changed the status of a customer account to inactive with an unpaid balance that had never been billed or collected.
4. An adjustment posted to one utility account had no supporting documentation or approval in the Council minutes. Due to the adjustment, the utility billing tested was never recorded as revenue because the adjustment created a credit balance on the account.

CITY OF WHITEWOOD

**SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN
(CONTINUED)
DECEMBER 31, 2008 AND 2007**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Significant Deficiencies – Material Weaknesses (Continued)

Finding No. 2008-1: Internal Control Deficiencies (Continued)

Disbursement Process

5. An employee related expense that was tested was not allocated to the funds and departments consistently with the employee's salary.
6. One disbursement tested should have been recorded as a prepaid expense as it was for insurance coverage for the following year.

Payroll Process

7. The Building Inspector is compensated for 50 percent of the cost of the building permit issued in addition to his salary. The City was not properly tracking which building permits were included in the payment to the Building Inspector.
8. The police officers were not paid for hours in excess of 40 hours per week. Per the Fair Labor Standards Act, the City is exempt from paying overtime due to their public safety staff being less than five employees, but the City interpreted this as being exempt from paying these employees at all.
9. No supporting documentation or approval by the City Council exists to substantiate the allocation of the employee's time to different funds and/or expense functions.

Subsidiary Listings

10. The subsidiary listing of customer water deposits was not reconciled to the general ledger.

Cash Receipts Process

11. The library does not keep a detailed record of the immaterial late fee and fine revenue collected, nor does it record the expenses the cash is being used for.

Health Insurance Accrual

12. The health insurance accrual account is not reviewed to ensure it properly clears out.

Entering of Invoices

13. The City enters their invoices into the software based on the date of the invoice rather than the date the good or service was received.

Criteria and Effect: These deficiencies resulted in diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded.

Questioned Costs: None

Recommendations:

1. We recommend the City include in the ordinances adopting new utility billing rates the effective date of change in accordance with State law.
2. We recommend the City make specific arrangements with customers with restricted meter access to accommodate a reading of the meter monthly to obtain an accurate usage and proper bill.
3. We recommend the City not change the status of a customer account to inactive if the account has an unpaid balance. Additionally, we recommend the City clean-up all inactive balances to bring them to zero.

CITY OF WHITEWOOD

**SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN
(CONTINUED)
DECEMBER 31, 2008 AND 2007**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Significant Deficiencies – Material Weaknesses (Continued)

Finding No. 2008-1: Internal Control Deficiencies (Continued)

Recommendations (Continued):

4. We recommend the City Council and the Finance Officer establish a policy regarding utility adjustments in accordance with State law. Additionally, we recommend that the Assistant Finance Officer generate a monthly report which includes all adjustments posted to customer accounts and that a member of City Council review the report at least monthly. Also, we recommend that adequate supporting documentation is maintained for all adjustments. Lastly, a member of the City Council should be reviewing the billings monthly for any uncollectibility issues.
5. We recommend that employee related expenses be allocated consistently with how the employee spent their time for the various funds and departments.
6. We recommend that expenses be posted to the period in which the expense will be incurred (coverage period).
7. We recommend the Finance Officer track all building permits issued on a monthly basis (revenue recorded to the general ledger) and at the end of each month issue a check to the building inspector for 50 percent of the permits issued in that month and, in accordance with State law, properly publish such compensation.
8. We recommend the City pay their public safety employees their regular hourly rate for all hours worked in excess of 40 hours per week.
9. We recommend that time be allocated among the various funds and departments based on time studies performed periodically. Adequate supporting documentation should be maintained, and the allocations should be approved by the City Council for reasonableness.
10. We recommend the City track customer water deposits in a list and reconcile the listing to the general ledger on a regular basis.
11. We recommend that City Council adopt necessary policies to have the librarian track and submit to the Finance Officer the amount of revenue and expenses that are being collected and spent with the late fee and fine revenues.
12. We recommend the Finance Officer review and reconcile the health insurance accrual account upon payment of the premium and that the amount being accrued accurately reflects the amount owed per individual.
13. We recommend that invoices are entered into the accounting software based on the date the good or service was received for proper cut-off of accounts payable.

Response/Corrective Action Plan:

1. City Council will amend Ordinance No. 2008-05 to read "The following monthly charges will take affect on the first billing period of the corresponding year."
2. The City has made arrangements with this commercial customer for reading this meter.
3. All customer accounts that are changed to inactive with account balances are listed and tracked by the Finance Officer. The accounts are changed to inactive in an effort to keep the account from being billed every month. These accounts are still being pursued for payment.
4. A policy has been adopted by the City Council, June 1, 2009, that allows the Finance Officer to adjust customer accounts up to \$75.00, anything greater requires Council approval. All adjustments are kept on file and reviewed by Council quarterly.
5. Significant expenses will be allocated consistently with the employees pay control among the various funds.
6. Expenses will be posted to the period they are incurred.

CITY OF WHITEWOOD

SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN (CONTINUED) DECEMBER 31, 2008 AND 2007

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONCLUDED)

Significant Deficiencies – Material Weaknesses (Concluded)

Finding No. 2008-1: Internal Control Deficiencies (Concluded)

7. A copy of all building permits issued is given to the Finance Officer for review and a claim for 50 percent of the total cost is attached to the building permit copy.
8. A policy has been implemented, reviewed and signed by all public safety employees addressing this issue. A copy is in the Employee Manual.
9. All employees' time is periodically studied, and the disbursement of pay between funds is approved by the Council.
10. Customer deposit cards have been totaled, and the general ledger has been adjusted accordingly. All deposits are also being tracked on a separate spreadsheet.
11. The Librarian will compile a monthly revenue and expense report of the late fees and fines and provide to the Finance Officer.
12. The Finance Officer has reconciled the health insurance accrual account with the premium payment.
13. The Finance Officer will make sure the goods and services have been received before entering into the accounting software.

Finding No. 2008-2: Budget Trial Balances and Budgetary Overdraft

Condition: The City's budget trial balance did not agree to the Appropriation and Supplemental Appropriations per the City Ordinances. Also, the City had budgetary overdrafts of \$15,008 and \$49,667 in various sub-functions of the General Fund for 2008 and 2007, respectively, and \$4,910 and \$1,932 for the Library Fund Culture and Recreation sub-function for 2008 and 2007, respectively.

Criteria and Effect: The City should prepare a budget trial balance based on the appropriations approved by the City Council and properly adjusted for all supplemental appropriations. South Dakota Codified Law 9-21-10 prohibits making contracts and incurring expenses by any department or any officer of a City, whether governing body or not, unless an appropriation shall have been previously made concerning such expense.

Questioned Costs: None

Recommendations: We recommend that the City prepare a budget trial balance based on the appropriations approved by the City Council and properly adjust for all supplemental appropriations. Also, supplemental appropriations should be approved prior to incurring the expense to prevent budgetary overdrafts.

Response/Corrective Action Plan: The Finance Officer will properly adjust for supplemental appropriations and provide trial balances to the City Council for review and confirmation that the adjustments have been made.

CITY OF WHITEWOOD

**SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN
(CONCLUDED)
DECEMBER 31, 2008 AND 2007**

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

The Finding #2006-6 listed in Part B relates to the major federal award program, which is listed in this report and in the Schedule of Expenditures of Federal Awards as Water and Waste Disposal Systems for Rural Communities (CFDA #10.760).

CITY OF WHITEWOOD

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	CFDA Numbers	Amount
<i>U.S. Department of Agriculture:</i>		
Pass-Through S.D. Rural Development		
Water and Waste Disposal Systems for Rural Communities Grant (Note 1)	10.760	\$ 566,325
Water and Waste Disposal Systems for Rural Communities Loan (Note 1)	10.760	903,000
Total U.S. Department of Agriculture		1,469,325
 <i>U.S. Department of Homeland Security:</i>		
Pass-Through the S.D. Department of Public Safety Emergency Management		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	32,527
 <i>U.S. General Services Administration:</i>		
Pass-Through the S.D. Federal Property Agency		
Donation of Surplus Personal Property	39.003	6,675
Total		\$ 1,508,527

Note 1: This program was tested as a major program.

Note 2: The Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting.

OTHER REPORTS



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

City Council
City of Whitewood
Whitewood, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the **CITY OF WHITEWOOD** (the City) as of and for the years ended December 31, 2008 and 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying Schedule of Findings as 2006-5, 2006-6, 2006-7, 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider all of the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards, which is described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as 2008-2.

The management's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan. We did not audit management's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing board and management of the City of Whitewood, federal awarding agencies and pass-through entities, the South Dakota Legislature, and state granting agencies, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Law 4-11-11 and OMB Circular A-133, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP
Certified Public Accountants

December 7, 2009



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REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City Council
City of Whitewood
Whitewood, South Dakota

Compliance

We have audited the compliance of the **City of Whitewood** (the City) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to its major federal program for the years ended December 31, 2008 and 2007. The City's major federal program is identified in the summary of audit results section of the accompanying Schedule of Findings, Questioned Costs and Corrective Action Plan. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs are the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the years ended December 31, 2008 and 2007.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as 2006-6 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We consider the deficiency described above to be a material weakness.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing board and management of the City of Whitewood, federal awarding agencies and pass-through entities, the South Dakota Legislature, and state granting agencies, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Law 4-11-11 and OMB Circular A-133, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

December 7, 2009